



International Agricultural Trade Report

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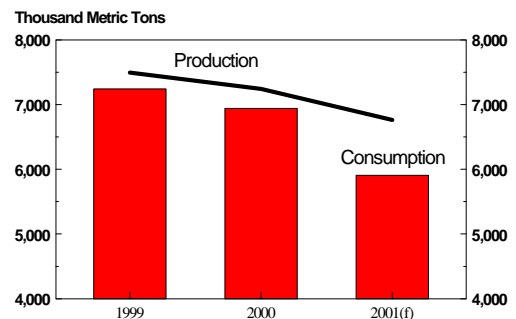
Rebuilding the EU Beef Mountain

Animal Diseases Forcing Adjustments in the EU Cattle and Beef Sector ...

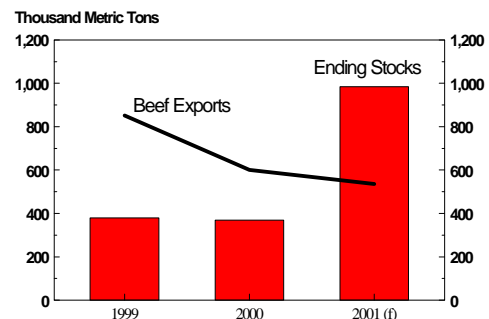
The European Union's (EU) cattle-and-beef sector is undergoing significant changes following the increased detection of Bovine Spongiform Encephalopathy (BSE) in the EU cattle herd late in 2000. The most crucial BSE-related factors affecting the EU cattle and beef sector are growing domestic consumer fears about meat safety with near-weekly announcements of new BSE incidences; the closing of virtually all EU beef export markets as a result of importer fears over both BSE and foot-and-mouth disease (FMD); and, the market support policy measures undertaken by the European Commission that control cattle numbers and beef production.

In 2001, these factors are crashing together to bring about a forecast 7-percent decline in EU beef production. At the same time, beef consumption is forecast to fall even more precipitously, about 15 percent, as consumers turn away from beef and potentially shift preferences to pork and poultry. The sharp drop in consumption, coupled with further contraction in EU beef exports, will result in a spike in EU beef stocks by the end of 2001. The more recent outbreak of a second animal disease, FMD, exacerbates this situation by reinforcing the conditions that are generating the beef surplus.

Falling EU Beef Consumption in 2001 is Forecast to Outstrip Production Declines...



...Forcing the EU to Build Beef Ending Stocks as Export Markets Contract



... And Generating a New Beef Surplus

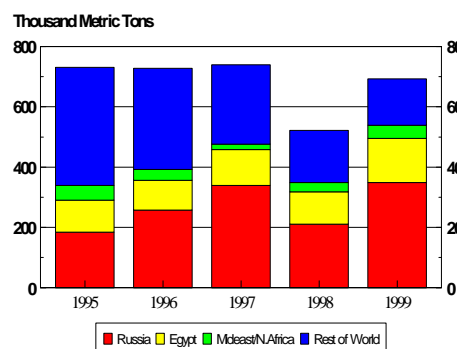
This is a reprise of the EU beef mountain that arose during the EU's initial BSE crisis in 1996. At that time, the first link between BSE and the human disease, new variant CJD, was made. This new link with BSE spurred a sharp, but temporary, drop in consumption and exports that generated a beef surplus on the EU market. Then, and again today, in an effort to support market prices, the EU has used public intervention purchases to take beef off the market, creating a record stockpile that was only drawn down in 1999 and 2000 when the EU relied on heavily

subsidized exports to dispose of the beef. Russia's economic crisis provided an opportunity to dispose of intervention stocks. The EU made full use of the export subsidies allowed under the WTO to export beef and drew down the stockpile. Just months after clearing out the intervention stockpile, EU inventories are once again expanding due to BSE-related market reactions and policy measures. As before, the EU is turning to the use of intervention and other publicly financed policy tools to take beef off the market. By the end of 2001, EU beef stocks could reach 1 million tons. As of mid-April, 175,000 tons of beef have been placed in intervention.

Where Will the EU Beef Go? Opportunity and Challenge for U.S. Exporters

The double whammy of BSE and FMD has closed off virtually all EU export markets, including the two most critical: Russia and Egypt. As EU beef exports to the rest of the world declined between 1995 and 1999, these two markets, plus countries in the Middle East and North Africa, came to dominate the EU's beef export picture.

EU Beef Exports Depend on Russia and Egypt



Over the last decade, while world beef exports have been fairly stable, the United States has nearly doubled its share of the total beef export market by targeting high-quality beef markets. The current absence of the EU from global beef trade is unlikely to offer significant short-term gains for U.S. beef exporters as the EU's main markets, Russia and Egypt, purchase a different product from the EU than typically provided by U.S. beef exporters. If the current import bans remain in place for an extended period, however, markets will adjust and additional opportunities may become available not only for the United States, but also for other beef-supplying nations without FMD or BSE.

By the end of 2001, the EU will likely have nearly 1 million tons of beef in storage. All of the beef entering storage via an intervention program will have been tested and certified as BSE-free. Competitively priced EU beef will likely again be attractive to markets like Russia, particularly if some level of confidence in EU beef is restored through the testing measures and other programs in place. In this scenario, U.S. poultry exports to our key Russia market may be the U.S. meat product most challenged by the resurgence of EU export efforts to draw down the EU beef mountain.

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